

Interest Groups and Government Growth in Spain during Franco's Dictatorship (1939-75)

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In this paper, we present and discuss the rent-seeking process which occurred during Franco's regime in Spain (1939-75). Once the Civil War (1936-39) was over, those who won the war (militiaman, right-wing factions) took control of the key positions in the new government. That meant the transfer of rents from the budget to veterans of war and their relatives, fuelled by the creation of an increasingly strong and well organised interest's group. The author takes a *public choice* approach and is inspired by a similar study by R. Holcombe on the American Civil War.

During the last few decades more attention has been given to the public sector's failures. Consequently, it is assumed [Becker, 1983] that government departments could be more sensitive to political pressure than to the preferences of the consumer. Besides, regulations might help to protect the pressure group's interest¹.

Active minorities are used to act as a catalysts to set off new political trains in public spending. For those who have individual incentives to achieve economic advantages tend to create demanding coalitions supporting their interest. Meanwhile, the ones with little to loose or unaware of the potential losses in the process, adopt a low stance as passive minorities. Among these pioneers who are of this focus are G. Tullock and J. Buchanan (*public choice school*).

This paper follows the Virginia School's analysis on interest groups. They are organised pressure-groups having incentives to lobbying in favour of private expenditures whose payment is distributed among all the population. The key issue could be the group's strength because of its size or organisational capability.

The starting point is Holcombe's analysis [1996, p. 175] of interest groups' activity after the American Civil War and the transition to government growth in 1870-1915. He notes a large percentage increase in federal expenditures during the Civil War followed by a higher level of expenditures after the war. Authors such as Ressler, Thompson [1985] and North [1985] follow the same path. We apply this scheme to the Spanish post-Civil War period.

During General Franco's rule in Spain (1939-75) it is possible to note two different trends: the growth in the size of government (public expenditures as a percentage of GNP), and the transfer to the Spanish Civil War (SCW) veterans of a set of rents and benefits not the least because of a privileged treatment. They organised themselves into a really effective pressure group.

In this paper we will try to show how, after the war (1936-9), those veterans were in fact an interest group that carried out a number of activities to strengthen their position. The new regime's ideological change (a sort of fascist corporativism) made Spaniards ask for a bigger government and one more oriented toward protecting citizens' economic interest. The following analysis makes the point that the activity of the Civil War Veterans was the basis for the transition to government growth.

1. Interest Groups in Spain after the Civil War

After elections in 1931, the monarchy –one of the oldest in Europe– fell and a Republican regime took power in Spain. The lack of suitable leaders and an hostile attitude towards religious mat-

¹ A first draft of this paper was presented at the Public Choice Society Sessions, New Orleans, 1998

ters, in a country deeply rooted in Christian beliefs, brought about a growing national polarisation between politicians and the army. The situation became almost untenable, and in 1936 blew up, resulting in the SCW. A sizeable chunk of the military ranks (headed by General Franco), representing rural and traditional classes of Spanish society, opposed the elected government (more and more under socialist and communist control).

The outcome of the conflict (1936-39) is well-known. One cannot lose sight of the fact that Franco's victory meant the exile, death or imprisonment of thousands of people on the other side. Few government heads have enjoyed such a power. Franco found full support coming from the Army and the official political party, the *Falange Española Tradicionalista* (FET). As if that were not enough, in both organisations veterans were hard core, loyal to the new government.

After the Civil War, ex-soldiers made up 4% (some one million people) of the total population, but adding to the total figure their families and relatives, comprised a larger fraction of the voting population. Franco always counted this group as one of his main political assets, and pursued the support of veterans as a group, paying off his supporters with increasing benefits.

In 1940 veterans began to organise local committees and meetings that eventually were the catalyst to create the same year an umbrella group –the *Brotherhood of Veterans* (HEC)– for the purpose of helping these ex-soldiers. This organisation was technically non-political and aimed to promote the veterans' cause through mutual support. But it grew under the shadow of and got the full support of the Franco's regime. The HEC managed to establish the *Memorial Day* or the political orchestration of *The First of May*, the feast of workers. At the same time, all kinds of political and economic rights were denied to those belonging to the defeated group in the war (many of them suffered imprisonment for a number of years).

The strength of this force was different in every region, and was stronger in those areas that had supported Franco's side during the war (Castille, Navarra). These regions received many economic rewards (for example, the maintenance of special economic laws in Navarra). Meanwhile, the areas that supported the losing side (Catalonia, Basque Country) were deprived of most of their political rights. Republican veterans were not eligible for pensions, consequently, veteran's benefits were transferred from the general country to recipients in those specific regions.

The historical details are worth reviewing in order to understand how veterans interests became so successful after the Civil War. The veterans supported Franco's regime, and in exchange were paid off with generous pensions. In the post-war cabinets, the veterans always had a wide representation through the top men in the Army and a paramilitary group, the *falangistas*. This provided a solid platform for the defence of their interests.

The bulk of Franco's first cabinet –comprised of twelve people– were militiamen (4) and *falangistas* (5) –mainly veterans of war. During the first stages of the new regime until 1945, militia personal took 46% of all the ministerial posts, and 37% of the government offices [Jerez, 1982, p. 230]. At the same time, the *falangistas* got 40% of all ministerial appointments, and 30% of all high administrative positions. In the regime's top positions until 1945 (some one thousand), there were 232 militiamen and 238 closely related to the *falangistas*. Affiliation to FET in 1942 reached the peak with 932.000 individuals (only men).

The winners obtained full control of the army. A centralised and bureaucratic military establishment would parallel the development of the civil service. Despite Franco's reluctance, the very fact that three different Departments (Air Force, Army, Navy) were established, shows their key role.

From the very beginning, the Army held a pivotal position in the new regime [Payne, 1987, p. 256-7]. They reached the highest position of those in the regime's political arm (the FET). In a matter of a few months afterward, the new pressure group pushed hard for the approval of measures which meant a transfer of rents to the people that would succeed them. Among other measures, we can highlight some: a) increase in salary (1940), between 17% and 40%, according to the rank; b) access to

shops with bargain prices (in the context of severe food shortages for the country); c) labour contracts as civil servants; precedence was given to those who had war experience (of course, the winner faction); d) promotions and military awards after the war (new rents were attached to them).

The official Army count had risen to 900.000 in 1939, later on reduced by Franco to 230.000 (in 1940), even though the World War II increased the roll again to 400.000 (1945). The Marine Corps was made up of some 25.000 people in 1940; and the Air Force counted 4.000 officials and 31.000 men (data from 1945). Also under military control remained the *Guardia Civil* (60.000 men in 1941). The force contained in total over a million men of which three quarters were to be demobilised until 1953, so becoming war veterans.

The new situation came out of the government's concern about political status. Officialdom continued to be an artificially inflated body with more than 25.000 officials in 1952 and the highest retirement age in Europe [Payne, 1987, p. 439]. And the ones who went into active reserve received full payment. Franco was conscious of this squandering of resources and of the personnel's surplus, but he never dared to change the status-quo imposing a full reform, no doubt because of fear about its political consequences. He maintained something that the regime might have collapsed without. On July 1952, a new disposition took into affect concerning top Army chiefs with civil jobs: from then on they would be on both pay-rolls. And in 1953 some 2.000 officials retired with full payment and extra-bonuses. The Army shrank to some 250.000 soldiers, the same number for the next thirty years to come.

In the analysis of the rent transfer mechanism we are showing here, there is a misunderstood point. No doubt that, as a whole, the force of the Army and Police lost significance among the new regime's economic priorities. The assigned national budget's percentage diminished throughout that time: 50% (in 1940); 40% (1945), 35% (1953), 30% (1955), to reach 25% in 1959. But we are dealing with very high amounts (in fact, the highest in Europe after the end of World War II). It is more relevant, though, that the main reduction affected new weaponry. Veteran pensions remained untouched. This allows us to get an idea of the degree of organisation and efficiency that this interest group achieved: for Spain was going through a severe recession and in real terms a reduction both of GNP and of per capita rent.

2. Veterans Expenditures after Civil War

Benefits to Civil War veterans were defined by laws of Congress in 1939. Payment went to disabled veterans and to surviving widows and children of those killed in the war. The recession that badly hit Spain between 1939 and 1957 –partly due to international isolation– caused a slowdown in the rent transfer to veterans. But the budget surplus from 1958 onwards provided available funds, so Franco could compensate veterans in exchange for their support. The surplus provided an opportunity for them to succeed.

The main difficulty is to measure the real amount of this transfer. Statistics prior to 1957 are not available or do not deserve much credit. Even the annual budget does not reflect accurately these minor entries. We do not know where to look. One item in the budget which could help to cast light on the issue is *Pensions and Social Security*. It reflects the payments for all sorts of social services, and during the first years of the regime, the main expenditure was veterans pensions. The figure illustrates the total amount (millions of peseta) and the percentage of the budget:

Year	1935	1941	1942	1947	1950	1952	1954	1956	1960	1962	1964	1969	1972
\$	386	375	654	1268	1520	1375	1824	4457	3931	5196	8283	41262	60325
%	8,3	6	7	8,7	8,1	6	6,5	11	5,4	5,6	6,5	14	15

These show that right from the beginning, the rent-seeking activities were at the forefront of the veteran's organisational activities. There were a steady growth with ups and downs related to the economic cycles, and peaking in 1956 and in 1969-72.

Another source available to find a fair estimation of the real figures concerning public spending on ex-soldiers can be found in the budget item for elderly assistance (millions of pesetas):

Year	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
Spending	103	172	171	183	252	300	300	300	309	497

As we can see, the small expenditure expansion is only broken in the last year (1949) with a 62% growth. In any case, for the whole period, the ratio increases from 1 to 5. Yet in 1944, there were 172.579 people receiving some type of pension because of the Civil War: crippled and handicapped of war (28.421); the families of the deaths in war (29.701); Republican's militiamen and their families (79.579); other pensioners (14.162). The pensions' outlay for SCW in the 80's was 27 thousands of millions (1980); 42 (1982); 47 (1984); 60 (1986); 75 (1987).

Further measures in favour of veterans include the civil service and regulation in many areas. Legislative and institutional changes gave the central government control through the Civil Servant Law, which after the SCW restructured central employment; people ideologically in line with the political regime took control of bureaucracy; and a number of new central agencies and ministries were established.

Fundamental changes in the administrative nature of government took place. The point of reference is the political *clientelism* created during the previous period: changes in government meant changes in civil servants. Service jobs were made on partisan political grounds. The new Trade Union's scheme also provided a lot of room for appointments based on the loyalty to the political regime. Public employment rocketed in this time. Civil servants could expect their interest to be closely tied to the current regime [Holcombe, 1995, p. 20]. There was a close link between civil service reform and the incentives in government to act as an interest group that would promote growth in public expenditures.

A number of services were cartelised: shipbuilding, railroads, steel. Holcombe [1995, pp. 16-7] points out the key issue: concerns about excessive competition and regulation as a way of protecting their economic interests against the forces of the market. International isolation for a number of years fueled the process in this direction. Individuals wanted to protect their rights or to secure their property to further their economic interests. In railroads to stabilise rates and regulate routes to be more profitable than they could have been in a more competitive unregulated environment. The responsibility for regulation was transferred from the government to separate administrative agencies (e.g., to control the production of hydro-electric power).

In post-war times, economic and political circumstances paved the way for a rampant interventionism in labour issues, the most prominent outcomes being new regulations and a steady effort towards an universal social security: in 1945 the *Health Service* was created. The political factions supporting the regime during the SCW pushed forward to get the laws approved: veterans emerged as the main beneficiaries of these revolutionary changes. Also it forced the development of institutions as the *Labour Guilds*. The obvious consequence was the increase in payments for those who had a job.

We must keep in mind that there were many Republican ex-soldiers imprisoned, in exile, or ideologically biased when they tried to find a job. A number of state monopoly (as tobaccoist's) were granted to veterans and later on to the widows of those killed during the SCW. Even in the 1970's this scheme was used to compensate the victims of terrorism's families.

3. The Government Growth

The activities of the political interest group after the SCW laid the foundation for the transition to the government growth, a key feature of that period, in a sharp contrast to the years before, when there was little growth in central spending [Alcaide, 1988, p. 7]. Prior to the SCW, expenditures were about 10% of the GNP, by 1975 it grew to about 25%.

The increase in veterans' benefits paid after the Civil War is an important part in the government growth: they represent the most substantial interest group outlays carried out by the government in Spanish history. The veterans programme paved the road for the domination of interest groups in the Franco era.

There has been a dramatic change: the 1940-75 growth of the government is not just an extrapolation of former trends. Of course, the amount of government expenditures was higher in 1935 (4.655 millions) than ever before (901 in 1901), but growing at a very slow rate (15% on average per year during this period). The transition came after the end of the SCW. Central expenditures in 1940 were 6.241 millions, 41.836 in 1957 (a 670% increase) and 408 millions in 1972.

Not the same can be said about the growth of public expenditures in relation to GNP. There was an increase in 1901-1935 (from 9 to 14%) as a consequence of Morocco's war, but since 1935 it has remained at this 15% level, even decreasing in critical years (1951, 1955). This really does not get us very far were it not for the sake of the overall tendency.

We follow Holcombe [1995, pp. 3-4] in the analysis of the major factors responsible for this transition of the government growth:

i) a rising economy (mainly from the 'stabilisation plan' in 1959) brought about an economic surplus, so providing opportunities for interest groups to look for central transfers of money; the period 1939-58 means deep stagnation; from 1958 onwards there is budget surplus; the ratio between public expenditures and GNP goes up steadily: 18,8 % (1960), 21,3 (1968) and 25 % (1975); between 1958 and 1975 the revenues overweighed the budgetary spending, so the Treasury could pump a lot of money into the economy; especially good years because of budget surplus were: 1961 (20 thousand millions peseta), 1962 (16), 1967-69 (15) and 1972-74 (45); veterans became an organised interest group attaining the government support, which allowed this group to be the first rent-seeking interest group in Spain's history to capture major transfer payments from the central government;

ii) the central bureaucracy was transferred to a group of political appointees, who owed their jobs and loyalties to the current administration and political regime [Holcombe, 1996, p. 4]; during the mid 1950's a new group appeared, the *technocrats*, whose jobs were more objectively assigned, based on civil service examinations, so that principles of scientific public management were used to create a long-term workforce of career public sector employees;

iii) a decrease in central regulatory activities: the scope of its activities was narrowed to the protection of individual rights and the promotion of the economic interests of its citizens; budgetary amount had a reverse relationship with state regulations; between 1900 and 1959, strong economic regulation and small public spending went hand to hand; later on, after the 'stabilisation plan' and political democratisation in 1975, the maintenance of a high orderliness coincided with the increasing and diversification of public expenditure;

iv) the growth of social outlays: no doubt this is mainly the reason for the increase in public spending. Pensions' spending were more than 7 % of GNP in 1958 and fell to 5 % by 1966; but social expenditure almost doubled between 1960 (9) and 1975 (13 %).

Each of these changes led to the strengthening of interest groups that demanded a larger government in order to further their economic interests.

A major factor diminishing the real effects of these measures was the high level of inflation during the first post-war period (14% on average in 1940-51) even though it went down by 1951-58 to

6,7 %. In fact, it wiped out all the monetary growth of public expenditure until 1957. So, in terms of current peseta, public expenditure in 1957 (41.836 millions) was 7 times the 1940's one (6.241); however, in constant peseta of 1901, the growth (2.146 in 1940; 2.854 in 1957) is not impressive (13 %). The public spending's real growth in Spain began in 1965 both in monetary and real terms. In current peseta the government spending in 1973 is 12 times bigger than in 1957, and in constant peseta the ratio is 5 to 1.

The question would have gone answered were it not for the very fact that neither theories (Wagner and Peacock-Wiseman) explaining public spending's growth fits well in the Spanish case. Let us see why.

i) A. Wagner [1967, pp. 1-24]: constant forces are working to push up public expenditure, through two different ways:

– private action is replaced with public one in sectors demanding strong capital investment, with long-term repayment; where the exclusion principle does not work (public works, railroads, postal service);

– the emergence of new social needs, which can only be provided by the government (defence, justice, education, health, welfare).

After the throughout research conducted by Lagares [1975, pp. 19-33], it is not possible to apply such a scheme to Spain.

ii) A.T. Peacock and J. Wiseman [1961]: this growth is the outcome of isolated facts, such as wars, economic depressions and the like. Holcombe [1995: 28] establishes that government expenditures ratchets up in response to crisis such as wars and depressions, and after the crisis passed, never fall back down to their old levels. But ratchets do not explain the long-term upward trend of government expenditures in the 20th century. It was the first empirical setback to Wagner's theory. The public spending flaps if those events disappear.

The ratchets hypothesis affirms that public spending holds back during social peace periods because the fiscal burden does not allow to carry out all desired outlays, and remains stable in these times; only social unrest can make the fiscal pressure go up until the amount thought to be necessary to pay for the desired expenditures. The new tax level reached after the war ratchet once the conflict is over which enables to maintain a higher public spending than before; but when it climbs up the fiscal ladder it is rather difficult to undo the way.

Much the same is true of Spain at least until 1951. A substantial amount of the increased public spending was directly war-related, but delayed by the 1940-51 economic crisis. There was no ratcheting up after the SCW: 15% of public expenditure as a percentage of GNP in 1935, then 10% by 1950-60. Spain catches up in 1965. But public expenditure as a percentage of GNP flattens along this period: 14,3 (1935) to 13,7 % (1940); 15 (1945), 10,4 (1950), 8,6 (1951), 9,6 (1955), 13,5 (1960), 16,8 (1970), 16,3 (1972). Until 1976 it does not recover the level of 1935.

In terms of public spending's increase/decrease until 1951 the bad years are more common: 1940 (it goes down 24 %); 1941 (19); 1946 (15); 1951 (8). Thereafter, we see an steady growth with very good years: 1954 (increasing 12 %); 1956 (18); 1958 (25); 1959 (15); 1962 (26); 1966 (18).

It is a well known phenomena that democratic governments are prone to interest group politics that makes governments inefficiently large. In the Franco regime's case the model to be applied is the one of autocracies: dictators who expect to remain in power for a long period of time will maximise their utility function enforcing the property rights and the long term contracts among the citizens. To put it mildly, Franco is one of them. On this issue, it is worthwhile to read again the work of Tullock on Autocracy, and the Olson's robber model of dictatorship.

4. Evolution of Central Budget

To see how veterans groups were able to organise to capture those transfers, some background on the central budget before the Civil War is useful. Historical events which affect the budget's magnitude and structure includes the Morocco War, Spanish Republic II, and the Civil War. Veterans of the SCW are the advanced interest group to gain enough political power to bring about a major increase in direct monetary transfers to group members. They produced the political atmosphere for new pressure group to succeed in this capture of central payments. It is worthwhile to analyse how the increase of central outlays splits among the different items making up the central budget.

Public Expenditure Structure

(percentage average in relation with total spending)

Year	Debt	Wages	Services	Defence	General	Services	Fomento	Pensions	Education
1930-35	22	33	17	17	13	21	25	7	6
1940-45	13	33	30	39	14	14	17	5	4
1946-51	15	37	26	33	14	14	20	8	5
1952-57	14	39	26	32	17	19	24	7	7
1958-64	8	32	11	20	14	27	29	5	7
1965-72	3	37	8	14	11	33	44	12	12

Regarding public expenditures we consider two phases: 1939-59, and 1958-75. Let us leave aside the Republican period (1931-39) when a number of public works were performed to tackle the unemployment problem, neglected until then. The new ideas about government tasks was reflected in a slight budget change:

i) 1939-59, Public finance moving backwards [Comin, 1988, p. 79]. The item *Fomento* receives 25 % of the total budget during 1930-5, figure not reached again until 1958-64. After the deep economic recession (1940-51) the country suffered a decade of foolish autarchy. The war and subsequent reconstruction enhanced the expenditure. Progressive items such education, health, pensions or infrastructure lagged behind that of almost every other one (in fact, they fell from 8 % in 1946 to 5 % by 1958). In depression era (1940-60) the entry pensions remains unchanged (5 %); later on, it went up to 12 % in 1965-72.

ii) 1959-75, Modern Public Finance. It came with more open-minded cabinets and a new venue in politics with the *technocrats*, a group of academics who entered the political arena to speed the country's development. The starting point is the 1959's stabilisation plan. On public spending, Wagnerian forces work along this plans (structural trends lifting it up) with a recovery and up-dating of public expenditure.

As a conclusion, veterans compensation and pensions were the earliest major Spain transfer programme, and veterans formed a powerful interest group, so they were able to maintain generous benefits through the political process.

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